PRIVATE PENSIONS, THE TAX CODE,
AND THE EROSION OF RETIREMENT INCOME SECURITY

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Introduction

In 2002, Tim Ramsey was a barrel-chested veteran lineman for Portland General Electric, and his job for 34 years was anticipating problems and, if necessary, to climb an icy power pole to solve them. But he was the first to admit that he didn't foresee the effects on his retirement plan of the financial storm began gathering around PGE's corporate parent, Enron Corp. Even as the $1 million in his 401(k) plan began to shrink (to what would become $12,000) in April of 2002 when he turned 55, "Ramsey believed the spin that Enron was still a winner, still a gold mine for savvy investors. 'I don't know,' Ramsey said. 'It kept looking so great, and I kept listening to their garbage'" (Cobb 2002).

Tim Ramsey's story was excerpted from a news article during the height of the Enron scandal. While it is tempting to blame certain individuals for running a company into the ground and, hence, eviscerating the retirement security of thousands of workers, this kind of event is not unprecedented. In 1964, 7,000 workers at the Studebaker automobile manufacturer, over half of whom were over the age of 40 with more than 10 years of service, lost all their pensions when the firm folded.

Although the effects of spectacular corporate failings can be devastating, they mask a more gradual and persistent erosion in worker welfare. American workers are experiencing a long-term decline in the quality and quantity of retirement income security. Spectacular events and mundane trends continue to occur despite the enactment of dozens of tax laws supporting private pensions, hundreds of tax rules, and billions in lost tax revenue since the collapse of the Studebaker firm over 40 years ago. Therefore, two questions come to mind: Why is pension security eroding, and why is retirement income policy ineffective?

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I argue that the system of tax laws and institutions governing private pensions both directs political change as well as responses to such change in a way that has facilitated the erosion of old age income security for workers. As labor unions, government social policy, and big business have declined since the 1970s, the risk of income security in old age has been, and still is, shifting to workers. Instead of a shock to the pension system being shared among the different stakeholders, it will fall squarely on private households. It is this very shift of risk that has spurred activism by workers and retirees as employers shed their pension obligations.

Heeding Schumpeter's (1954) dictum that the state's tax structure has an enormous effect on economic, political, and social life, this paper would ground its review in the structure of pension law as found in the tax code. I first review general concepts and historical trends regarding retirement and retirement plans. The legal terrain is then surveyed by tracing the general pattern of tax legislation affecting pensions. In particular, I note the rise of the 401(k) plan, which has become the major type of private pension program in the United States.

I next discuss the four major groups of stakeholders that are important to retirement policy. The four major stakeholders are workers; the employers who sponsor retirement plans; organizations that provide services (e.g., investment management) to pension plans; and the federal government.[1] With regard to these stakeholders, I focus on the following issues: What are their interests? What institutions and forces are shaping their interactions? In general, the fragmented nature of the stakeholders is a major contributor to the erosion of old-age income security. Not only are there divisions between stakeholders, there are also conflicts or contradictory interests within each stakeholder group. When considering retirement policy in

[1] There is some overlap in this typology. Certainly there are investment and other service providing firms that also sponsor pension plans for their own employees. Moreover, the federal government is also a sponsor of retirement benefits for its employees (both civil and military), and state and local governments sponsor pension programs. However, such governmental plans are not a focus of this study.

terms of stakeholders, Howard's (1997) comment regarding the political coalition supporting comprehensive pension reform in 1974 remains apt:

> But the extent of fragmentation within each branch of the coalition, the lack of consensus on basic goals, and the frequent internecine battles clearly set the tax treatment of employer pensions apart. Instead of one, relatively unified advocacy coalition, this program featured several advocacy coalitions whose interests sometimes coincided but just as often conflicted (Howard 1997: 137).

The combination of a diffuse set of tax laws governing pensions and the fragmented nature of the stakeholders create an game-like environment in which each group and subgroup compete for changes in tax legislation at the expense of others. Policy change by the government is incremental and focused on the overall fiscal position without a clear vision of how to achieve income security in old age. Employers adapt to changing conditions by shifting risks to workers, financial service providers seek to institutionalize this risk-shifting by lobbying for expanded savings in the tax code, and the decentralized nature of the tax system is a barrier to worker activism that would fight this risk-shifting.

The paper concludes with an attempt to bridge fiscal sociology with the sociology of risk in the context of retirement policy. The development of retirement income policy could be summarized by the word, 'risk'. Much of the shifts in the economics, politics, and policy of pensions relate in part to perceptions of risk, which is multidimensional and interdependent. Different stakeholders active on retirement policy have different perceptions of risk: the risk of poverty; the risk of a lawsuit; the risk of lost tax revenue or budget deficits; the risk of a reduction in net worth; and so on. And how one stakeholder acts in response to their perception of risk may affect the real or perceived risks of the other stakeholders.

A Note on Methods

Much of the discussion and argument that follows is largely based on qualitative data. I rely heavily on contemporaneous sources as to description of actors' interests. Some of these sources include statements from actors, which can be in the form of press releases, policy statements, and qualitative interviews. As to the latter, I conducted a series of interviews beginning in January through September of 2006 with a variety of individuals with unique perspectives on the pension situation: lobbyists, congressional staffers, activists.

Where appropriate, I include quantitative data both to show trends and in a couple of instances to establish relationships or interests. With regard to this quantitative data, I rely to some extent on budgetary figures such as tax expenditures. The concept and measurement of tax expenditures has been problematic and controversial at times, but I do not intend here to explore such issues. As it is not unusual for tax expenditure figures to be revised in later budgetary documents, I have tried as much as possible to use the most recent estimates of tax expenditures.

Background: The Erosion of Income Security in Old Age via Private Pensions

It is often said that retirement security for Americans is in the form of a three-legged stool: Social Security, private pensions provided by an employer, and individual savings and/or earnings. The private pension system is distinct from Social Security in that it is voluntary on the part of employers and employees and that it is based on a complicated mix of tax incentives, regulations, and penalties. Private pensions evolved over time in the United States with the first written corporate-level private program established in 1875.[2] Through much of the early twentieth century, these pension plans were generally pay-as-you-go affairs with benefits paid out of the general assets of the employer as they came due, but beginning in the 1920s insurance companies offered insurance contracts as a way for companies to provide benefits without the

[2] The first formal pension plan in the United States was established by the American Express Company.

burden of potentially excessive claims on the company's assets (Sass 1997). In effect, insurance contracts were marketed as a way to transfer the corporation's risk of unpredictable pension expense to a third-party provider.

The modern era of private pensions began in the late 1940s and the early 1950s (Costa 1998). This modern era was characterized by large firms managing their pension plans in-house with the aid of a network of outside pension consultants, investment advisers, and bank trustees. Sass (1997) identifies the inflationary conditions and the booming equities market of the 1940s and 1950s that made conservative insurance products less attractive, and very large firms, such as Ford and AT&T, were emboldened by their post-war growth to self-insure their own pensions. Moreover, firms began to realize that pension assets and liabilities could serve useful tax and corporate finance purposes.

These early pension programs were usually structured as defined benefit (DB) plans, which provide a future annuity to employees at retirement and which are funded by employers. In order to fund their pension promises, employers (using the help of experts such as actuaries and accountants) projected their likely pension obligations several decades into the future on the basis of, among other things, estimated trends in labor force growth and asset returns. Based on these projections, employers made contributions and determined how contributions would be invested. While workers have the security of a fixed benefit payment (typically calculated as a percentage of the worker's average salary), traditional DB pensions represented a risk to employers even in stable economic times, and funding projections could be costly as well as imprecise. For this latter reason, traditional DB plans often can be under- or over-funded at any particular point in time.

However, since the 1970s another type of retirement program known as defined contribution (DC) plans became increasingly important to retirement security. Early forms of these plans were usually profit-sharing arrangements that were discretionary and supplementary to the traditional DB pension (at least for large firms), but more recently the trend has been towards more reliance on DC plans, such as the 401(k) plans. In DC plans, workers and/or employers contribute funds each year to an account in the employee's name, and the assets in the account grow each year according to investment returns and future contributions (hence the term, 'defined contribution'). A crucial difference relative to DB pensions is that DC plans do not promise a specific benefit at retirement and benefits are often paid as a lump sum rather than an annuity (although an annuity can often be purchased with the lump sum). Moreover, the worker usually selects how his or her contributions will be invested.

In recent decades, the DC plan has supplanted the traditional DB pension as the main source of retirement income. In 1980, there were more than 148,000 defined benefit plans that covered 30 million active workers (38 percent of the workforce), but by 1999 the numbers had shrunk — just under 50,000 defined benefit plans covered fewer than 23 million American workers (21 percent of the workforce). Over the same period, the number of defined contribution plans increased from 340,850 to 683,100 with an increase in workers covered from 14 million (14 percent of the workforce) in 1980 to more than 46 million (43 percent of the workforce) in 1999 (U.S. Department of Labor, 2004: Table E4).[3]

Initially over this period, many of the firms that dropped the traditional defined benefit pension plan were small firms; very large firms continued to sponsor defined benefit pensions

[3] These figures refer to active employed and unemployed private sector workers. The same trends are seen using a different set of individuals. In terms of active workers, retirees, and beneficiaries, in 1980 defined benefit plans covered nearly 38 million, and by 1999 they covered 41 million Americans. The number of workers and beneficiaries covered by defined contribution plans increased from nearly 20 million in 1980 to more than 60 million in 1999 (U.S. Department of Labor, 2004: Tables E1, E5).

but even this group is changing. Table 1 provides some snapshots of the plan sponsorship by Fortune 100 companies, which are the largest employers of working Americans. In 1985, 89 percent of the Fortune 100 companies offered a traditional DB pension with only 10 percent only offering a defined contribution or 401(k) plan. One company offered a new type of plan – a hybrid plan – that combined elements of both traditional pensions and defined contribution plans. By 2005, only 37 percent of the Fortune 100 was offering a traditional DB plan. Thirty-six percent of the Fortune 100 was *only* offering a DC or 401(k) plan, while 27 percent now offered the new hybrid plans.[4]

[Table 1 about here]

What does this mean for workers and retirees? It is difficult to assess the effects of such trends, but recent research is starting to put numbers on the problem. A 2004 study estimated that America's retirees face an aggregate income gap of at least $45 billion annually by 2030 if current savings rates continue (Employee Benefits Research Institute 2004). A 2006 report predicts that 43 percent of American households face a decline in their standard of living (Munnell et al. 2007).

The Structure of Tax Legislation Affecting Private Pensions

In order to understand and attempt an explanation of the trends in retirement plans discussed above, I turn first to the structure of tax policy and the history of tax-related legislation that affected pensions. The statutory framework for pensions begins with the ratification of the 16th Amendment to the Constitution in 1913, which permitted the imposition of taxation on personal and corporate incomes. The Treasury Department ruled in 1914 – 21 years before the creation of Social Security – that amounts paid for pensions to retired workers and their dependents could be

[4] As noted by Watson Wyatt (2006), a global consulting firm, the Fortune list changes each year, but the overall trends hold true even if only the companies that have remained on the list are analyzed.

deducted by employers as ordinary and necessary business expense.[5] The tax treatment of pensions was formally recognized through the Revenue Acts of 1921, 1926, and 1926, which established the basic tax structure that has governed and facilitated private pensions to the present day: Non-recognition of income to workers from both contributions to plans and investment gains within plans as well as deductions to employers who make contributions.

The modern era of pension legislation began in 1974 with the passage of the Employee Retirement Income Security Act (ERISA), which followed some well-publicized corporate bankruptcies that erased the pension benefits of affected workers (notably our Studebaker case discussed above). ERISA provided a coherent codification of laws relating to pensions and placed a greater emphasis on sound funding of traditional defined benefit pension plans. The law also created the Pension Benefit Guaranty Corporation (PBGC), which acted as a quasi-insurer for pensions when corporate sponsors were financially unable to make good on promised benefits. All legislation passed since 1974 has built on the foundations laid by ERISA.

The enactment of ERISA also highlights the institutional arrangement of politics surrounding retirement policy (March and Olsen 1989). ERISA's creation of a coherent pension regime at the federal level incorporated not only tax law but also fiduciary and labor rules. In so doing, it created a framework that provided for joint regulatory jurisdiction over pensions for the Treasury Department and the Department of Labor as well as a legislative structure that gave jurisdiction to four congressional committees: the Senate Finance Committee; the Senate Committee on Health, Education, Labor and Pensions; the House Ways and Means Committee; and the House Education and the Workforce Committee. Thus, multiple points of access were created for lobbyists and activists. Combined with the fact that the U.S. has a two-party system, where party differences are slight and different parties can control different branches of government, partisan

[5] Treasury Decision 2090, December 14, 1914.

effects on retirement policy are likely to have less effect than the pressure of interest groups, which are not united but rather fragmented. As a result, changes in tax policy are incremental in nature as policymakers prefer to avoid, and likely are restricted from, enacting radical reform (Campbell 1993).

If the 1974 law laid the foundations for modern pensions in the United States, a law enacted only four years later in 1978 provided for the greatest and most unanticipated change in U.S. pension policy and possibly in U.S. capital markets. Beginning in the 1950s, a number of firms added a feature to their profit sharing plans by which employees who received a year-end bonus could opt either to take the bonus as cash or defer it into the profit sharing plan without recognizing the deferral as taxable income. The Internal Revenue Service usually allowed this practice, but the continued approval by the IRS became uncertain in the 1970s. The Revenue Act of 1978 sought to resolve this uncertainty by permitting cash-or-deferred-contribution arrangements (CODAs), as long as certain conditions were met, under section 401(k) of the tax code (Holden et al. 2006). Under these CODA plans, which quickly became known as 401(k) plans, employees are not taxed on the portion of income they elect to receive as deferred compensation until the deferred amount is actually paid out from the 401(k) plan.[6]

Following implementing regulations in 1981, 401(k) plans grew in terms of assets, participants and number of plans such that it is the dominant form of retirement plan in the United States. After the passage of twenty-five years since such plans became a reality, there are now over 417,000 401(k) plans (out of 752,000 total plans) holding over $2.4 trillion in assets (compared to $4.9 trillion total retirement assets in the U.S.) and with 47 million participants (out

[6] Readers of this paper may be more familiar with the CODA equivalent for non-profit, known as 403(b) plans, which are basically the same as 401(k) plans.

of 76 million Americans who participate in retirement plans) (Investment Company Institute 2006).

In summary, the enactment of ERISA was meant to shore up the existing patchwork of laws and rules for private pensions in order to avoid events like Studebaker. However, the creation of 401(k) plans added another of layer to the institutional framework that helped hasten the demise of DB plans by providing an alternative to employers. The exit of employers from traditional DB pensions was accelerated by exogenous trends and by the interests of different stakeholders, both of which are discussed next.

The Four Stakeholders in Retirement Policy

The prior sections provided context in terms of the institutional and legal environment and trends within that environment. I now want to sketch in a little more detail the principal groups of stakeholders. The stakeholders are employers, workers, service providers, and the government. These stakeholders are discussed in the context of the legal and institutional terrain sketched above, and I hope to show that the conflicting responses of these actors has had a detrimental effect on retirement policy.

The Government: From the government's perspective, there are two views on retirement policy. On the one hand, retirement policy is a part of a larger social policy of income security that provides safety net for older Americans who can no longer support themselves via the labor market. This social policy perhaps began with disability and pension programs for Civil War veterans beginning in the late 1860s (Costa 1998), but broad government involvement in income security policy began in Depression-era programs and were expanded by the Great Society enactments of the 1960s. In 2005, direct outlays for income security of all kinds (retirement,

disability, housing, unemployment, and others) totaled $350 billion (Office of Management and Budget 2006b).

On the other hand, the tax-favored nature of pension contributions, earnings, and distributions are a large source of lost tax revenue. Given the fact that pensions are a function of tax policy, it should follow that broad fiscal policy has a significant impact on retirement legislation, and that retirement legislation affects the fiscal position of the United States government. The critical concept in assessing the fiscal aspect of retirement is that of the tax expenditure. Popularly known as tax breaks or loopholes, tax expenditures are "departures from the normal tax structure…designed to favor a particular industry, activity, or class of persons" (Surrey and McDaniel 1985: 3), and these can be thought of as a functional expenditure since the government would have collected the revenue in the absence of the tax break.[7]

Looking at a cross-section of tax expenditures for the most recent fiscal year indicates the importance of pension tax expenditures for fiscal policy. In fiscal year 2005, tax expenditures for private pensions[8] amounted to over $88 billion dollars (Office of Management and Budget 2006a). To put this in context, the top three largest tax expenditures for fiscal year 2005 were $118 billion for employer contributions for healthcare insurance premiums, the $88 billion for employer pensions, and the home mortgage interest deduction at $62 billion.

Moreover, pension tax expenditures have been growing in recent years as shown by Figure 2. Immediately following the passage of the seminal ERISA pension legislation in 1974, tax expenditures for private pensions rose sharply until the early-1980s. The sharp increase reflected

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[7] Beginning in 1982, budget documents provided data on tax expenditures both in terms of revenue lost and in terms of the equivalent outlay, which is generally larger than the tax loss. For this discussion, all tax expenditure numbers refer to revenue loss only.

[8] This amount includes tax expenditures for employer plans and 401(k) plans; the addition of individual retirement accounts and Keogh plans would raise the tax expenditure total for pensions to $101 billion. It does not includes expenditures for the low and moderate income savers credit, railroad retirement pensions (which have their own special pension rules), military and civil service retirement, the small business retirement plan credit, and special rules for employee stock ownership plans.

a couple of different forces. ERISA placed more emphasis on funding, and the adverse economic conditions of the late 1970s and early 1980s forced many corporate sponsors of certain pension plans to make additional contributions and thereby claim additional deductions (Bell, Carasso and Steuerle 2004). After 1982, pension tax expenditures fell in real terms until the mid-1990s when they began a gradual increase. Falling tax rates from the 1986 tax reform act made pension plans less advantageous as a tax shelter strategy, and the recovery of the stock market beginning in the mid-1980s allowed corporate sponsors of pension plans to reduce their contributions because their plan investments were doing so well. Perhaps most importantly for this story, tax expenditures declined because of several laws enacted from the early 1980s through the early 1990s that restricted the tax advantages of pension plans. Finally, tax expenditures for pension plans have been rising since the late 1990s in part due to an expansion of savings opportunities and in part due to the recent recession that necessitated increased contributions to traditional DB pensions.

[Insert Figure 2 about here]

These trends need to be understood in the larger context of federal fiscal trends and legislation. Since the mid-1970s (with a small respite of surpluses in the late 1990s and early 2000s) the general deficit condition in the federal budget has run concurrently with the rise of the pension-related tax expenditures. As a result, the broader fiscal picture has had an inhibitory effect on pension expansion.

Table 2 below provides a comparison of the major laws affecting pensions and the level of tax expenditure and fiscal situation in the year each law was passed.[9] We can see that from 1974

[9] While I do not provide data, one can make a similar inference regarding 'permissive prudence' when looking pension legislation from the 1920s through the 1940s. The first expansion of tax deductions and non-recognition of income from pension trusts occurs in the midst of the booming 1920s while the first major cutback in funding deductions occurs in 1942 when the government is under severe fiscal stress due to World War Two.

through 1981, when pension funding rules were expansionary, that the overall budget position was deteriorating into very large deficits, but the level of tax expenditures in real terms was low. From 1982 through 1994, however, the Congress enacted a series of laws that in various ways tightened contribution and benefit limits and required more restrictive funding rules for traditional defined benefit plans.[10] These restrictions can be seen to occur over a long trend of very large federal budget deficits. Tax expenditures related to pensions reached a high of $76 billion in 1982, but they steadily declined as a result of the restrictive legislative enactments. After 1994, Congress enacted laws of smaller scope in 1996 and 1997[11] that lead to the massive 2001 Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).[12] These laws generally expanded the ability of employers and employees to contribute to pension plans, and as a result, tax expenditures related to pensions reach historic highs (in real 2000 dollars) of $84 billion. Finally, the last major pension bill was the Pension Protection Act of 2006, which had a

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[10] The Tax Equity and Fiscal Responsibility Act of 1982, P.Law 97-248, which imposed new nondiscrimination rules, imposed more stringent funding and benefit limitations; The Deficit Reduction Act of 1984, P.Law 98-369, which froze maximum annual pension benefit and contribution limits through 1987 and made substantial changes to nondiscrimination rules; The Retirement Equity Act of 1984, P.Law 98-394, which instituted spousal protections on pension benefits and changed age requirements for enrollment and vesting; The Consolidated Omnibus Budget Reconciliation Act of 1985, P.Law 99-272, which raised PBGC premiums for employers and restricted the availability of insured plans terminations; The Omnibus Budget Reconciliation Act of 1987, P.Law 100-203, which tightened minimum funding standards, set a maximum funding limit, and increased PBGC premiums; The Technical and Miscellaneous Revenue Act of 1988, P.Law 100-647, which increased excise taxes on excess pension assets upon termination of pension plans; The Omnibus Budget Reconciliation Act of 1989, P.Law 101-239, which increased the tax penalty for overstatement of pension liabilities for deduction purposes; The Omnibus Budget Reconciliation Act of 1990, P.Law 101-508, which raised taxes on transfers from a pension plan to corporate assets and raised PBGC premiums; Omnibus Budget Reconciliation Act of 1993, P.Law 103-66, which reduced the compensation limit on which benefits could be based; The Uruguay Round Agreements Act (GATT) of 1994, P.Law 103-465, which provided for greater contributions to underfunded plans, slowed cost-of-living adjustments, and phased out caps on PBGC premiums (Employee Benefits Research Institute 2005).

[11] The Small Business Job Protection Act of 1996, P.Law 104-188, which a new savings incentive for small business (the SIMPLE plan); The Tax Relief Act of 1997, P.Law 105-206, which created a new, nondeductible IRA, the Roth IRA, that permits after-tax contributions, can be used for retirement or other expenses such as home purchase, and is more widely available than deductible IRAs.

[12] P.Law 107-16.

mixed effect because it generally tightens funding rules for defined benefit plans but also allows for increased deductions for funding the plans.[13]

[Table 2 about here]

If we can cautiously make a general statement about the relationships among the three entities, it might be that federal legislation is very mindful of both the immediate impacts of proposed legislation as well as the overall fiscal climate albeit with perhaps a lag such that accumulating tax expenditures and budget deficits provoke legislative tightening.

This perspective is also supported by qualitative data. Some of the interviews were with lobbyists who were active on retirement policy issues in the 1980s, and they provided their own perception of the larger environment in which retirement policy was constrained.

> If you think about pension funding, there has been a long standing conversation, to use a neutral term, between the government and sponsors of pension plans about funding their pension plans…Then we had kind of a schizophrenic period during the 1980s because in 1981 were passed the big Ronald Reagan tax cut, which produced this huge deficit…And really from '82 through,…'94 was the last chunk. The Congress came every year and took money out of retirement plans…They did tons of stuff, all of which translated into less money going into retirement plans. In fact, [name of lobbyist] was interesting because [he] was on the Hill during part of this. We were talking to him. He was on the Finance Committee and he looked at us and said, 'we can't afford for everybody to go and put enough money away for them to retire.' (Interview 12 2006)

Another lobbyist who previously served as a congressional aide and in the executive branch made the same observation:

> We are partly, we are largely budget driven. So you are in an environment in the 80s, early 80s after the '81 Reagan tax cuts where retirement issues really weren't much in play other than IRAs, which was huge. But they weren't a central part of that agenda then. But then you were in a constant cutback mode because the federal budget deficits were out of control. And everyone was told they had to give at the office, every area, every potential tax cut and you were also doing that in an environment where we had a Republican president who was

[13] P.Law 109-280. Descriptions of the PPA were taken from a number of commentators, including Frueh (2006).

firm on not increasing tax rates. And so you were doing a lot of little things through the backdoor to raise the money, and it was simple as that. (Interview 15 2006)

The two goals of social policy and fiscal necessity collided to create the resultant theme that might be called 'permissive prudence'. The government will follow a natural inclination to expand participation in pension plans via greater tax benefits for workers and corporations until a point at which fiscal strain from such actions cannot be ignored, after which government policy will reverse course and tighten the tax advantages of retirement plans.

A further strain on the government was created in 1974 when Congress created the Pension Benefit Guaranty Corporation (PBGC), which is a public corporation that insures the pensions of more than 34 million workers and retirees in nearly 29,000 private sector defined benefit pension plans. When firms go bankrupt and cannot meet funding and benefit obligations, the PBGC takes over the plan and makes benefit payments. The PBGC is not taxpayer-supported but relies on premiums paid by employers as well as the assets of plans that it assumes. For these reasons, when the PBGC must assume responsibility for a pension from a bankrupt employer, workers often receive less than what the plan promised (Pension Benefit Guaranty Corporation 2006). As of the end of the 2005 fiscal year, the PBGC reported a $22.8 billion deficit in its insurance program, and given the financial condition of certain industries, namely automotive and airlines, it seems likely that the PBGC would be taking on additional liabilities. A worry for the government is that if pension under-funding and weakness by corporate sponsors continue, the PBGC could be overwhelmed and require a taxpayer bailout. Thus, while the government might want to maximize revenues, at the same time it wants to encourage firms to fund their plans in order to avert government bailouts.

Employers: From an employer's perspective, there are two, somewhat unrelated aspects to pension and retirement benefits. One is the cost of attracting and retaining labor, and the other perspective focuses on the firm's capital structure. From a labor management perspective, pensions are traditionally part of the compensation structure of the enterprise, which in addition to pensions can include salary and wages, health care costs, mandatory expenses such as workmen's compensation, vacation, and assorted fringe benefits. For private employers in 2006, pension programs represented 4.3 percent of total labor costs and 14.3 percent of all benefits (Department of Labor 2006a: Table 1). In 2003, employer-sponsored defined benefit plans paid out an estimated $132 billion in benefits to retirees and beneficiaries (Buessing and Soto 2006). Moreover, global competition and recent market conditions have placed pressure on American firms to reduce labor costs given the relative advantage of certain overseas markets in terms of wage and benefit expenses. In a recent poll of chief executives of fast-growing private companies, 34 percent listed increasing pension and healthcare costs among their most pressing challenges (Schneyer 2006).[14]

It should also be noted that business organizations in the United States have changed since the advent of widespread corporate pension plans. In large organizations of the earlier era, highly ordered, hierarchical, and closely coordinated organizations were dominant in the mass production of standardized goods. Pensions had a specific role in this system of welfare capitalism. As Sass (1997) notes, the traditional DB pension was part of a gift exchange that were given "in the hope of soliciting employee concern for the good of the corporation" (1997:240). Pensions were also given as compensation for service when organizations valued long service and provided firm-specific skills. Pensions also were (and still are) a tool for

[14] Among CEOs polled, over 80 percent listed keeping key employees, 52 percent mentioned developing new products, 36 percent listed market expansion, 30 percent chose increased competition, 22 percent indicated increased regulation, and 20 mentioned managing succession.

inducing exit of excessively compensated older workers. For the under-funded plan, the pension also helped bind workers and their union representatives to the idea of making the firm successful or at least sustainable.

This earlier industrial model has transitioned to a different model that is characterized less by internal hiring ladders, more 'flat' in terms of management supervision, and an increase in hiring workers with generic skills rather than developing firm-specific skills. Since firms are less interested in keeping workers, traditional pensions are less useful (Sass 1997). In contrast, savings plan, like the 401(k), are based on competitive market wages. Moreover, pensions are less likely to be valued by workers when long-term employment is less stable and the labor market resembles a 'spot market'.

In a survey of more than 100 large U.S. and European multinational organizations, only 4 percent said that enabling employees to retiree is a top priority (Iyer 2005). In another survey of 3,000 accountants serving as corporate CEOs, CFOs, controllers, and other executive positions, almost 75 percent of those polled did not believe that companies would be able to provide adequate pensions for their employees in the future (Management Issues 2006).[15]

From a corporate finance perspective, traditional DB pension plan liability is a direct part of the capital structure of the sponsoring employer while DC plans are not the future obligations of the traditional pension lay a claim on the assets of the employer. As of 2004, pension liabilities accounted for roughly 21 percent of U.S. firms' market capitalization (Orszag and Sand 2005). Prior to the 2001 recession, the structure of accounting rules as well as the structure of corporate governance over pensions encouraged firms to treat pensions as a profit center:

> Until recently, the financial management of most corporate pension plans has been the responsibility of the firm's chief investment officer, often operating pretty

[15] In the same survey, more than half acknowledged that reductions to pensions will threaten a company's ability to attract and retain the talent they need to compete.

> much independently of the corporate treasury and finance functions…this practice of managing the pension fund as a business unit unto itself has been reinforced by accounting rules that kept pension assets and liabilities off corporate [accounting statements] (Chew 2006:2).

Higher returns in the stock market in good years allow companies to limit their contributions to their defined benefit plans and therefore report lower pension expense and higher net income. Added to this is the fact that prior accounting rules allowed companies, using inflated equity return estimates, to generate a risk-less stream of profit on the basis of their pension operations. Corporate sponsors of traditional defined benefit pension plans used accounting techniques that, in effect, allowed them to spread the recognition of pension obligations and asset gains/losses over a number of years. Corporate financial statements also did not have to fully disclose the extent of the pension assets and liabilities. By one estimate, in the absence of the extended bull market of 1982 to 2001 and legislative changes that lowered funding requirements, the average firm's contribution to its pension plan would have been 50 percent higher; instead, corporate profits were roughly 5 percent higher than they would have been otherwise (Munnell and Soto 2003).

This changed with the advent of the recession in 2001 when equity returns plummeted, and interest rates dropped. The equity returns reduced the value of plan assets available to pay benefits, and the interest rate decline inflated the value of the liabilities. Population aging sharply increased the actuarial costs to employers who now have to fund annuities that could extend 20 or more years into the future and who do not have the pool of younger workers who can produce at lower wages. Many companies began to realize that the true cost of their pension promises were effectively concealed and that the risk of assets held in pension plans can be effectively transmitted to corporate balance sheets, which affects firms' ability to borrow (Chew

2006). The government recently estimated that traditional DB pensions are under-funded in excess of $450 billion (Pension Benefit Guaranty Corporation 2005).

The changed market conditions required sharp increases in contributions by employers. From 1980 to 2001, total employer contributions to traditional DB pension plans fluctuated in a stable range of $25 to $50 billion. But the drop in asset values beginning in 2001 and associated drop in interest rates necessitated a vast increase in contributions. According to Buessing and Soto (2006), defined benefit plan contributions by employers went from $44 billion in 2001 to $98 billion in 2002 and $101 billion in 2003, the last year for which we have government data. This new financial reality combined with the advent of new accounting standards[16] diminished the value of traditional pensions in the eyes of corporate employers.

As a result of these (and other factors), the trend of less traditional DB plans and increasing DC plans has meant more risk being shifted towards employees and a concurrent encouragement of increasing labor force participation by older Americans (Friedberg and Webb 2000). Those firms that still maintain traditional DB plans are generally reducing benefits. Moreover, companies in declining and highly competitive markets such as the airline and steel industries are shifting their pension liabilities to the other stakeholders through bankruptcy, accounting changes, or bond offerings. But a number of commentators have noted a trend of very large employers closing plans to new hires (a practice known as 'freezing' the plan) (see, e.g., Munnell

[16] The International Accounting Standards Board and the U.S. Financial Accounting Standards Board are proposing a new standard that would remove smoothing techniques and require the recognition of changes in plan assets and liabilities on an immediate basis (Financial Accounting Standards Board 2006b; Tweedie 2006). The result of this globalization of accounting standards will likely be the injection of greater volatility in corporate financial statements and a negative effect on corporate financial statements and stock prices (Stickel and Tucker 2007). While the actual proposals are still in the process of implementation, their main points have been known and debated for several years now such that financial managers have had ample opportunity to adapt strategies. Companies that sponsor traditional DB plans can eliminate the risk of market fluctuation on their balance sheets by freezing or terminating their pensions, and as will be discussed, many companies have already done so.

et al. 2006).[17] For example, in early 2006, IBM announced that it would freeze its $48 billion pension plan benefits for its 125,000 American employees in 2008 and offer them only a 401(k) plan in the future. IBM, 'following a global strategy to move toward defined contribution retirement plans,' expected that the shift would save them as much as $3 billion through 2010 and provide it with a 'more predictable retirement plan costs' (IBM 2006). [18]

Service Providers: The $4.4 trillion in pension assets (as of 2004) supports vast industries of investment firms, consultants, recordkeepers, accountants, and actuaries, among others. Given the magnitude of this sector, it would seem obvious that public policy has a large effect on capital markets, and change in the capital markets can also be a driver of policy as well. As Figure 1 shows, pension assets in private pension plans have seen tremendous growth since 1985 when total assets equaled $2.2 trillion (in 2004 dollars). Figure 1 also breaks down the trends in terms of the type of plans that are driving this growth. Plan assets in defined contribution plans have gone from $732 billion in 1985, approximately half the amount for traditional defined benefit pensions, to $3.7 trillion in 2005, which is 35 percent more than held in defined benefit plans (Investment Company Institute 2006).

[Figure 1 about here]

[17] Generally, a freeze in a pension plan means stopping future accruals. Pensions earned up until the date of the freeze are not changed or reduced, but current employees cannot earn additional benefits and new hires cannot enter the plan. The authors note a number of reasons for pension freezes in addition to plan finances, namely that U.S. companies are cutting labor costs in the face of global competition, employers are cutting back on pension benefits I the face of growing health care costs, and that with the enormous growth in CEO compensation, traditional pensions have become irrelevant to upper management who receive almost all their retirement benefits through special arrangements outside of the plans that pay benefits to rank-and-file employees.

[18] However, there is another perspective on employers that should be noted. Some employers can be characterized as less than benign, at best, when it comes to their pension obligations. An anecdotal case in point is the Kaiser Aluminum & Chemical Company, which announced in early 2004 that it was canceling its medical and pension benefits for all employees. A charge against the principal owner of Kaiser is that he is shedding pension and medial benefits in order to pay for the junk bonds that were used to purchase the company. Using bankruptcy law, Kaiser is able to terminate pension and medical benefits, thereby shifting the burden of the pension promises onto the Pension Benefit Guaranty Corporation. (The Seattle Times 2004).

A significant portion of the growth in DC plan assets has been in equities, and this has helped fuel the growth of the mutual fund industry. For example, mutual funds accounted for 5 percent of all retirement assets in 1990, but by 2005, the mutual funds' share of the retirement market reached 24 percent (Investment Company Institute 2006). In turn, the retirement market became more important for the mutual fund industry over time. In 1990, the retirement plan market made up 19 percent of all mutual funds, but by 2005 this proportion rose to 39 percent of all funds. The growth of plan assets is crucial for financial service providers like mutual fund managers because their fees come out of the investment returns on the plan. A fund manager might receive a fee equal to 1 percent from the investment returns regardless of the size of the plan so a larger asset pool will generate higher income.[19]

Moreover, pensions are a driver of growth in other areas of the financial services industry. According to a recent study, for example, hedge funds are estimated to grow from around $360 billion in 2006 to over $1 trillion by 2010, and retirement plans will represent 65 percent of total institutional inflows over this period. In addition, some commentators have noted that in the aftermath of the Pension Protection Act of 2006, many employer sponsors of pension plans are actively trying to manage interest rate risk within their plan investments, and that effort specifically is translating into a predicted surge in demand for long-term bonds such as 30-year government obligations (Mangiero 2006; Huh and McClellan 2007).

The shift in plan types and growth in DC plan assets has heavily influenced the agenda for the financial services industry. Now that much of the risk of retirement has fallen on workers, financial industry representatives are pushing a number of initiatives that would institutionalize the shifting of risk. For example, the recently enacted Pension Protection Act of 2006 made

[19] Service provider fees are usually, but not always, taken from investment returns. Thus, if the plan investments in the aggregate return 7 percent in a year, the 1 percent fee mentioned in the text is taken from the 7 percent such that workers will see a 6 percent return on the statements.

permanent the expanded savings permitted by the 2001 Bush tax cuts. The 2006 law also allows financial firms providing the investment vehicles to offer investment advice to retirement plan participants despite the concern that firms may steer employees to mutual funds paying higher fees. Automatic enrollment, also blessed in the new law, allows employers to automatically enroll new employees in savings plans such as 401(k) plans with automatic investment of earnings in mutual funds unless the employees affirmatively opt out of the plan.

The pension-related growth in certain areas of financial sector, e.g., mutual funds, has not been matched in other areas, most notably the insurance industry, which was the dominant provider of pension services until the 1950s. Thus, the insurance companies are competing with other service providers, like the mutual fund industry, and this competition have a political component. For example, a large initiative for insurance lobbyists has been achieving tax-favored status for annuities in general and for those paid out of pensions in particular. This lobbying campaign has generated stiff resistance from the mutual fund industry, among others (Interview 13 2006). This latter issue of tax subsidies for annuities reflects some of the various and cross-cutting divisions in the business community over retirement issues, which highlights the idea that the policy domain has become another site for competition among firms.[20]

Workers and their representatives: For workers, retirement plan coverage is incomplete and varies along such factors as income, firm size, industry, unionization, and occupational group, among other things. A private pension makes up an increasing portion of financial support for middle- and upper-income groups, often much more than is provided by the Social Security

[20] Another example of this competition is seen in new legislation that permits firms to automatically enroll workers in 401(k) plans. A key question is how should the contributions from these auto-enrolled workers be invested. The insurance industry is waging a fierce campaign to have their insurance-based products be included in a government-sanctioned list of investment products along with mutual funds (Postal 2007).

program but is much less important for low-income groups.[21] According to the 2005 National Compensation Survey, 60 percent of all workers had access to a retirement plan, but only 50 percent participated in a plan (Costo 2006). White collar workers tended to have greater access and higher participation in all types of retirement plans than non-unionized blue collar and service workers. Unionized workers had greater access and participation as did workers in goods producing industries relative to the service sector. Workers in larger establishments (100 or more workers) also had greater access and higher participation than workers in small firms.

For all workers, there is the risk of poverty in old age, and pensions are attractive in the hiring process because they promise some security after retirement. However, pensions can be inadequate, for example, when inflation eats into the annuity of the traditional defined benefit pension. Another risk associated with traditional DB pensions is that the sponsoring firm may fail before the worker can accumulate a sufficient level of benefits as in Studebaker. Thus, when traditional DB pension plans are under-funded, workers essentially own some of the debt of the employer and share in part of the risk of the firm performing poorly.[22] The overarching question of whether DC plans can provide an adequate retirement income can be broken into several parts: [23] Can workers contribute enough to their own DC plan accounts? Will investment returns on those accounts be sufficient to reach an adequate level of income? Will workers withdraw and spend their retirement savings too soon, e.g., when they change jobs? Will workers outlive their retirement savings? Are workers appropriately protected from high fees, opaque securities transactions involving their investments, and company meddling with plan assets, e.g., allowing

[21] At the top quartile of income, pensions provide over 25 percent of the recipient's income while Social Security payments provide 20 percent (Whitman and Purcell 2005). At the second quartile, pensions provide 21.4 percent of income while Social Security provides 57.5 percent. For the third and fourth quartiles, however, pensions provide less than 7 percent of income while Social Security generates more than 80 percent of income.
[22] Some have theorized that pensions are under-funded intentionally in order to moderate wage demands, particularly from unions (Orszag and Sand 2005).
[23] CCA Strategies (2006) provides a useful summary of these issues.

workers to invest in company stock in order to boost the share price (the latter was the principal reason why Enron workers saw their 401(k) accounts vanish)? Finally, are spouses and other dependents adequately protected under such plans when the worker dies or relationships otherwise end?

In addition, there is the issue of union representation on pension issues. As noted above, the large-scale adoption of private sector retirement plans began out of the strengthened collective bargaining process following World War II. And despite the long-term decline in union membership, unionized workforces have better access to pension (and medical) benefits than non-unionized workers: Eighty-eight percent of unionized workers have access to retirement plans in general, and 73 percent of unionized workers participate in defined benefit plans as opposed to 56 percent and 16 percent, respectively, for non-union workers (Costo 2006).

And while unions have been quite vocal about protecting pension benefits on behalf of workers, they have their own interests and conflicts which limit their usefulness to workers. First, unions only represent a small portion of the American workforce, currently 15.4 percent of the workforce age 25 and older (U.S. Department of Labor 2007: Table 40). As a consequence, their voice, while still important, has been diminished and continues to decrease as unionized industries decline. Second, related to their declining membership is an interest in self-preservation, and here unions often must make difficult choices between, for example, protecting jobs and protecting benefits. For example, in recent years the United Automobile Workers has reached agreement with the auto industry in several instances where auto workers' jobs were protected in exchange for changes in pension and other benefit programs (Garsten and Hudson 2003). In addition, the instinct towards self-preservation has strained relations between unions that wish to position themselves as the vanguard in the fight to preserve pensions and the retiree-

worker social movement organizations that have formed in response to pension changes.[24] In an interview with a retiree activist, the informant felt that the unions have felt a little threatened by the retiree activist groups. He stated that, "they say to our face that they are all for us, but I suspect that the unions tell retirees not to join, to stick with the union" (Interview 11 2006).

Third, unions are often sponsors or joint sponsors with employers of pension plans, and they have responded to the trends discussed above in a way similar to employers. For example, the Central States division of the Teamsters union, joint sponsor with participating employers of one of the largest pension funds in the world, sharply reduced pension benefits for full-time Teamster members (Wolfe 2003), and this action is contributing to a more progressive splinter movement within the Teamsters (Teamsters for a Democratic Union 2006).

The Tax Code and Retiree Activism

Within any issue domain during any session of Congress, there are hundreds of issues, legislative bills, and proposed regulations that are the focus of political activity, and this is true of retirement policy as well. However, I focus on one particular controversy – the rise of cash balance pension plans – that has been constant since the late 1990s because it evokes many of the themes discussed above.

In contrast to traditional defined benefit plans, benefits in a cash balance plan accumulate as a hypothetical account balance – mimicking a 401(k) plan – that is typically paid as a lump sum when the worker leaves the firm. Benefits accrue more evenly over a worker's tenure as compared to traditional plans in which benefits tend to accumulate at an increasing rate at the end of one's tenure, and this even accrual allows for more predictable funding. Traditional DB pension plans typically provide a benefit as a percentage of pay, which is usually some average

[24] In 2001, a number of unions affiliated with the AFL-CIO formed a coalition, the Alliance for Retirement Americans, that is directed at retired workers' concerns. The website for this coalition is www.retiredamericans.org.

of the worker's final years of salary. Under this traditional scheme, benefits are weighted at the end of a career when salaries and wages are highest. A conversion to a hybrid plan might provide more benefits in the early or middle part of a career, but it might lack the exponential increase in benefits that accrue at the end of a working career. Thus, many have charged that conversions from traditional plans to hybrid plans reduce future benefits for current workers (Watson Wyatt 2005; D'Souza 2006).[25]

The first adoption of a cash balance plan was by Bank of America in 1985. Referring back to Table 1, these plans became popular in the 1990s, and roughly 25 percent of the Fortune 1000 sponsors of defined benefit plans currently have a hybrid plan (Watson Wyatt 2005). Table 3 below illustrates the trends in the growth of cash balance pension plans. By 1999, 599 plans with 100 or more participants had adopted the cash balance formula. This number nearly doubled to 1,037 in 2003, the last year for which we have data (Buessing and Soto 2006).

[Table 3 about here]

Pension activism has grown from the mid-1990s through to the present. Workers are assuming an increasing burden for their retirement security or seeing reductions in pension benefits, but they have not developed a widespread and coordinated response by workers to these changes despite a flurry of localized litigation and protest. The first umbrella group for pension activists was the Coalition for Retirement Security, which formed in 1996. After 1999, when IBM announced a major shift in its pension programs, the number of activist groups and their connections to each other grew substantially. Figures 3 and 4 compare pension activism in 1999 relative to 2005. These figures were developed from data obtained by 'crawling' the Internet Archives. The dots represent retiree activist groups, and the arrows indicate when a group links

[25] Federal law does not permit the reduction of benefits already earned or accrued, but it does allow firms to eliminate benefits that have not yet accrued.

to another group on its website. In 1999, there were not many groups in existence, and the linkages were few. By 2005, however, the number of groups and linkages greatly increased.

[Figures 3 and 4 about here]

In general, hundreds of companies have made significant changes to pension programs, and a significant portion of these changes have adversely affected workers. And yet, workers and retirees at only a handful of firms have mounted a sustained campaign to challenge these cutbacks. A difficulty for workers and retirees active on company-based benefits is that the private retirement system is voluntary on the part of participating employers and highly decentralized. The voluntary nature of the system means that employers can enter and exit the private retirement system with few constraints. In recent years, large employers have terminated pension programs or closed off existing programs to new hires (the latter process referred to as 'freezing' the pension plan).

The decentralized nature of the system is manifested in several ways, but for the purposes of this article it means that retirement plans are highly employer-specific. Unless there is a collective bargaining agreement that covers several employers within an industry, what one employer does with its retirement plan does not affect directly the pension programs of other employers. With the decline of unions, this voluntary and decentralized system has the effect that workers are kept in separate 'silos' of awareness in terms of how larger trends affect them. At the same time, however, employers are highly attuned on an industry-wide or system-wide level of trends and movements through a network of trade associations, service providers (financial and legal and others), and interlocking boards of directors.

The situation is illustrated in a simplified way in Figure 6 below. Solid lines connect employers and workers through the employment relationship, but they also indirectly connect

employers through common memberships and affiliations. Thus, the dotted line between Employer A and Employer B represents the communication between them and shared awareness of each other. However, absent outside agents - such as unions, activist 'brokers' and/or the media – who can make connections among groups of workers, no such dotted line connects groups of workers.

[Figure 5 about here]

In addition, not all workers are covered by pensions and savings plans so the pool of available activists is much smaller than the size of the workforce. Moreover, the type of worker who is likely to mobilize – white collar and a manager – creates a wedge between themselves and unions (although as one pension activist remarked to me, former managers are highly effective because they know their own organization and have good organizational skills).
And while unions have been quite vocal about protecting pension benefits on behalf of workers, they have their own interests and conflicts which limit their usefulness to workers, and their voice has been diminished and continues to decrease as those industries that have been traditionally unionized continue to decline. Moreover, related to their declining membership is an interest in self-preservation, and here unions must make difficult choices between, for example, protecting jobs and protecting benefits.

Conclusion: A Note on Risk

At the beginning of this paper, I asked why retirement security in the United States was eroding and why was retirement policy ineffective? To answer these questions, I have tried to establish the interests of the important stakeholders – employers, workers, financial service firms, and the government – as well as the political and economic context in which they operate. The source of these interests flow in large part from the structure of legal and political

institutions that govern retirement policy, and it is this structure that promotes a tendency to fragmentation rather than aggregation in terms of economic and political action.

The nature of the system also works to spread risk differentially across the stakeholders, which in turn affects their interests:

- The government follows a path of 'permissive fiscal prudence' due to often contradictory goals.
- Financial service firms view the political structure as an opportunity to achieve a competitive advantage in financial retail and wholesale markets, and by pursuing certain market opportunities, they have contributed to the institutionalization of the shifting of risk to workers.
- Employers have seen in the past couple of decades an increase in risk due to changes in demographic trends, organizational assumptions, and financial governance regimes, and they are shifting these risks to workers (and in some cases, to the government).
- Workers are assuming additional risks of income insecurity in old age due to the shifting of risks from employers, the reduced role of government in promoting an income security policy, and the growth of a financial services industry that is marketing products that make risk-sharing regimes like traditional DB pensions less attractive.

Risk, particularly that facing workers in particular, is part of a dynamic process within economic, social, and political institutions. Tversky and Kahneman (1974; 1981) identified three processes or heuristics that shape risk perceptions: the availability of information; the representativeness of the event or class associated with risk; and the reference point from which

people makes estimates of risk. From a sociological perspective, the key considerations are in specifying what factors influence the availability of information; how ideas of representativeness are formed; where reference points come from; who frames the choices; and whether others tend to accept the original frames or instead reframe issues (Heimer 1988). Heimer suggests that these considerations can be approached from both institutional and purposive approaches.

Using these lenses to look at retirement policy and politics, we can see changing perceptions of risk from all parties over time but particularly with regard to workers. Clearly, the income security of working and retired Americans had been eroding for some time given the decline of traditional pensions in favor of savings programs like 401(k)s, but only recently have workers become active. From an institutional perspective, the complicated structure of laws and regulations create an illusion of lower risk for workers: For example, the PBGC agency insures pensions for firms that fail, and employers must adhere to fiduciary standards and make disclosures to the government and to employees. Moreover, the system of pensions tends to isolate workers within companies such corporate bankruptcy and pension loss at one firm does not mean that workers at other firms will identify with that loss. Unlike executives, workers do not necessarily have the industry-wide perspective on which to make a representative frame.

From a purposive perspective, the government, employers, and particularly the financial services industry have good reasons to frame the shift from relatively safe traditional pensions to plans like the 401(k) in which workers bear more risk and responsibility. As noted above, the government is an insurer of traditional DB pensions. Employers see such plans as a drag on corporate earnings and balance sheets. Certain financial service providers, such as those in the mutual funds sector, make more money when riskier (for workers) DC plan assets grow larger.

As Heimer (1988) notes, we are more likely to accept the original frames regarding risk when the decisions seem trivial and when the frames come from more powerful actors. For many workers, retirement issues are far off in their time horizon such that the issues of income security only become relevant when retirement is looming, and workers are less powerful than the other stakeholders.

However, new framings have begun, and they come from a variety of sources: plaintiffs' attorneys, activists, the media, and politicians. The idea of the pension as a social contract between worker and employer, discussed above, is one such frame. Much of this effort has been framed as the preventing the breach of corporate promises or a social contract. The 'promise' was mutual in that companies offered a pension that created wealth and security in old age, and in exchange workers agreed to remain loyal to the company during their career – This has been referred to as the 'Faustian bargain' (Petillo 2006). The New York Times noted that "I.B.M. was once the standard-bearer for corporate America's compact with its workers…" (Walsh 2006). "That social contract is under severe pressure" (Lowenstein 2005). Indeed, President Bush repeated this theme:

> Many companies offer traditional pensions and fulfill their obligations to their employees and retirees. But too many companies do not put away the money needed to fund these promises. If a company gets into financial trouble or goes bankrupt, its failure to fund pensions will leave retirees with slashed pension checks. Every American has an interest in fixing this system because the Federal government insures these pensions and has to step in when companies fail to meet their responsibilities. *Companies need to keep their promises* and have an obligation to make sure money is set aside so workers get what they have been promised when they retire. (White House 2005: emphasis supplied).

In October of 2005, Time Magazine came out with a cover story entitled, "The Broken Promise." For the Time writers, the issue was clear:

> Corporate promises are often not worth the paper they're printed on. Businesses in one industry after another are revoking long-standing commitments to their workers.

> It's the equivalent of your bank telling you that it needs the money you put into your savings account more than you do – and then keeping it. Result: A wholesale downsizing of the American Dream (Bartlett et al. 2005).

Only time will tell if such framings with have a beneficial impact on retirement policy. But it seems likely that the large number of aging cohorts will raise the salience of retirement security to such a degree that all stakeholders will have to reassess their assumptions and interests.

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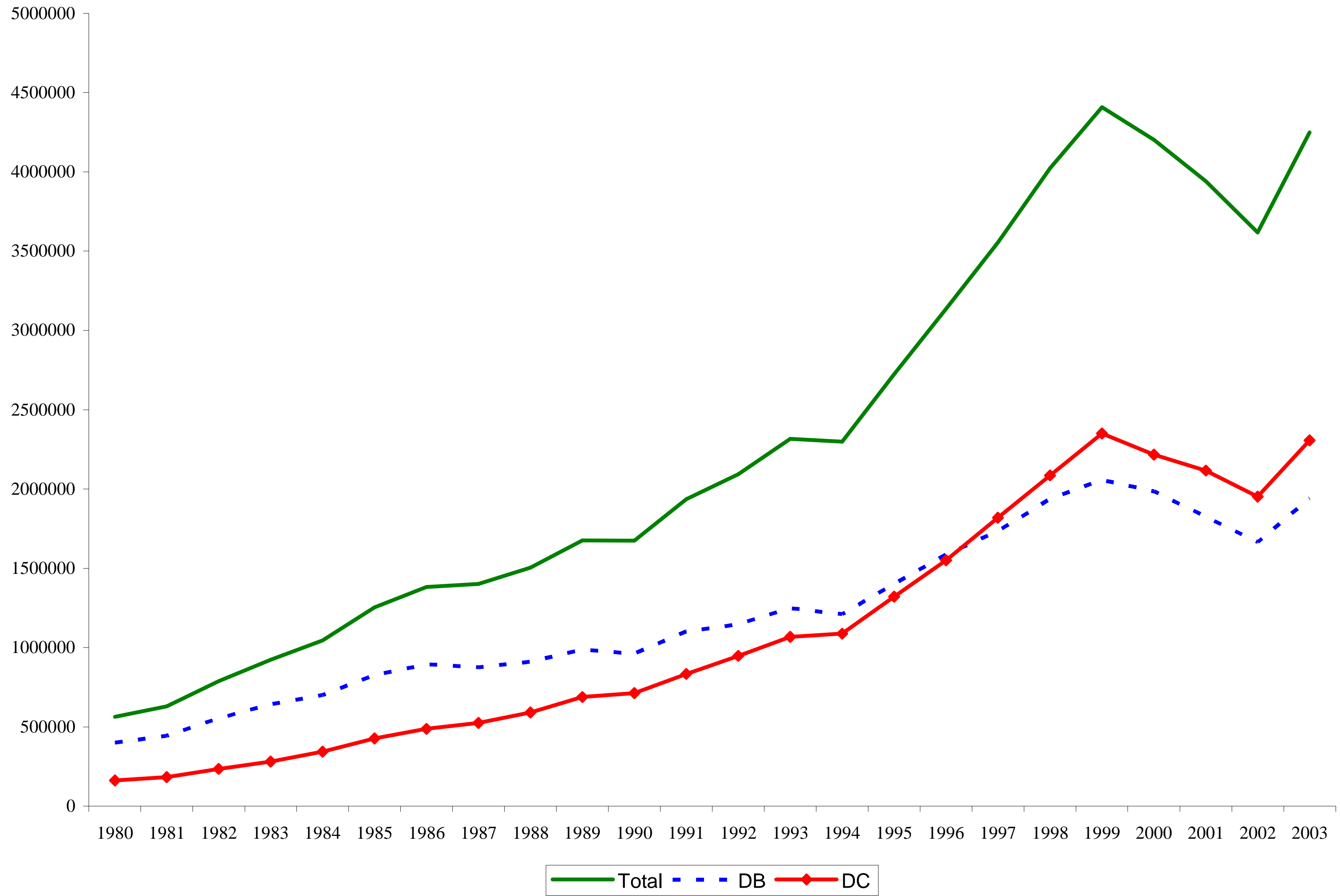
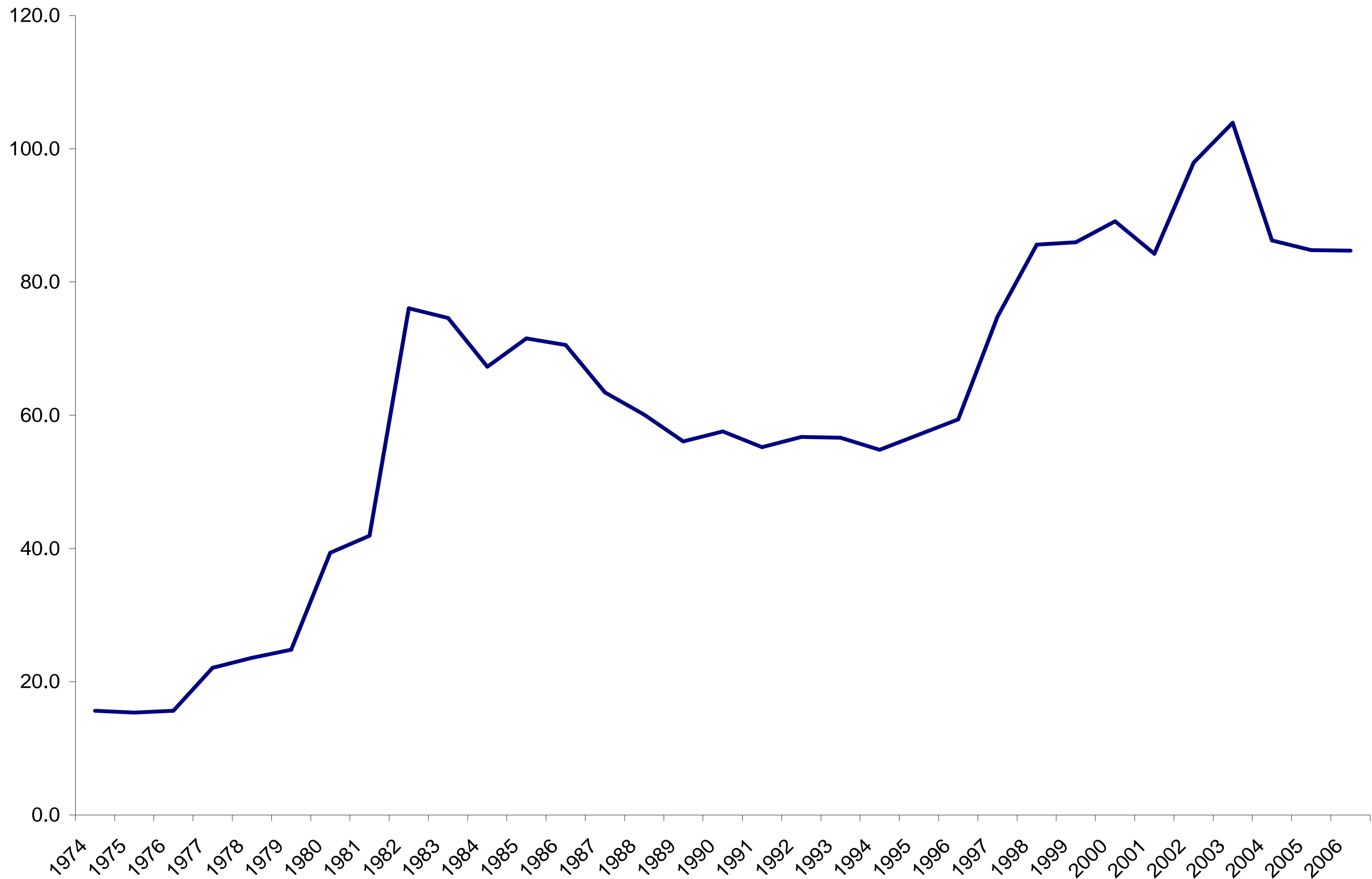
Figure 1: Pension Plan Assets, 1980-2003



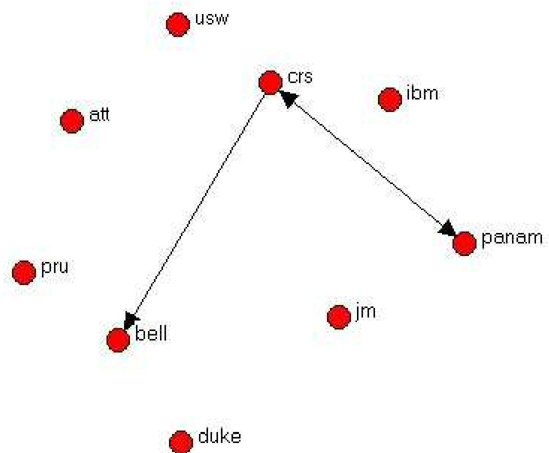
Source: Author's compilation from annual reports of U.S. Department of Labor 2006b.

Figure 2: Tax Expenditures for Employer Pension Plans, 1974-2006 (in billions of dollars).



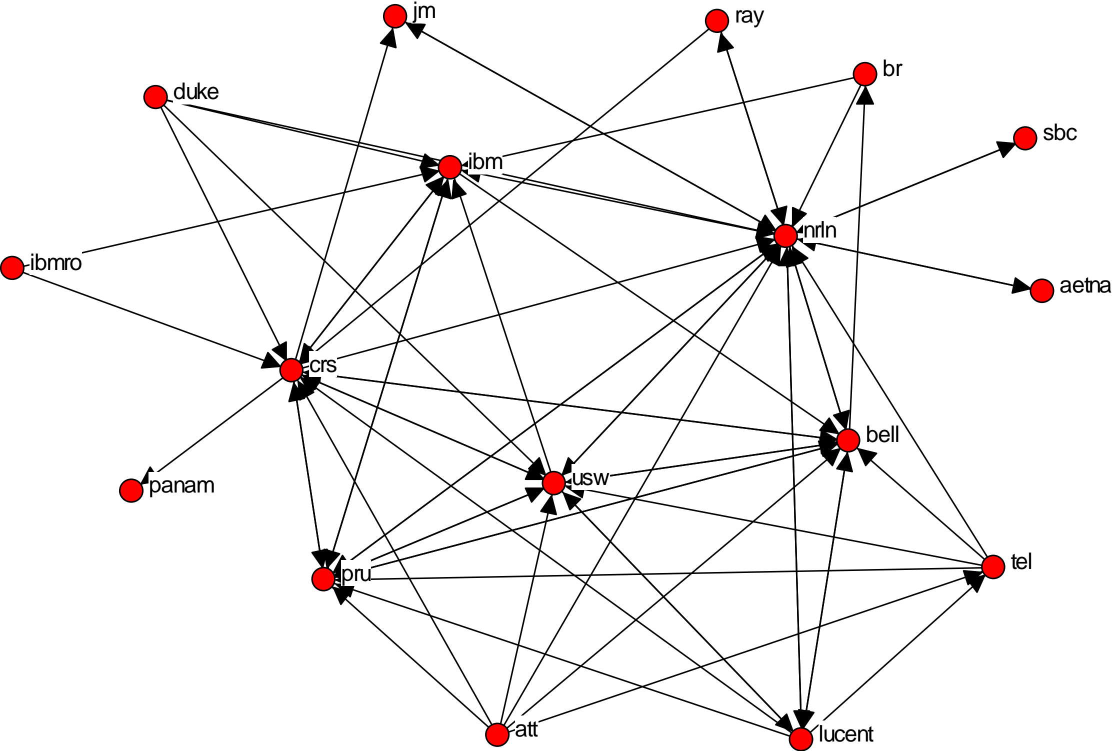
Source: Office of Management and Budget, various years.

Figure 3: Pension Activist Groups in 1999



Source: Author's compilations of 'web crawl snapshot' of Internet Archives and other sources.

Figure 4: Pension Activists in 2005



Source: Author's compilations of 'web crawl snapshot' of Internet Archives.

Figure 5: The Structure of Inter-Employer and Employer-Worker Relations

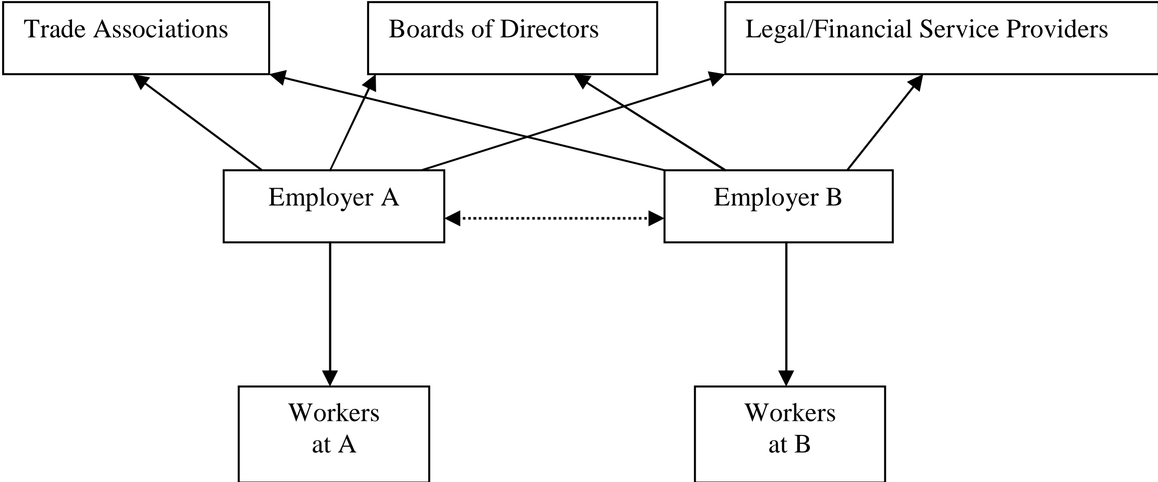


Table 1: Distribution of Retirement Plans Among Fortune 100 Companies

Type of Plan	1985	1998	2002	2004	2005
Traditional Defined Benefit Pension	89%	68%	50%	42%	37%
Hybrid Pension Plan	1%	22%	33%	33%	27%
Defined Contribution/401(k) Only	10%	10%	17%	25%	36%

Source: Watson Wyatt Worldwide (2006a).

Note: Most of the firms that offer a traditional defined benefit pension plan or a hybrid pension plan also offer a 401(k) plan.

Table 2: Effect of Selected Major Tax Laws on Pension Funding, Tax Expenditures for Pensions, and Fiscal Surplus/Deficit in Year of Enactment (in billions of 2000 dollars)

Year	Law	Law's Effect on Pension Funding	Tax Loss for Pensions	Budget Surplus or Deficit
1921	Revenue Act of 1921	Expand	n/a	4.4
1926	Revenue Act of 1926	Expand	n/a	7.4
1928	Revenue Act of 1928	Expand	n/a	8.0
1942	Revenue Act of 1942	Restrict	n/a	-199.4
1974	Employee Retirement Income Security Act	Mixed	15.6	-20.0
1978	Revenue Act of 1978	Expand	23.6	-141.1
1981	Economic Recovery Tax Act	Expand	41.9	-142.0
1982	Tax Equity and Fiscal Responsibility Act	Restrict	76.0	-214.8
1984	Retirement Equity Act/ Deficit Reduction Act	Restrict	67.3	-282.8
1985	Consolidated Omnibus Budget Reconciliation Act	Restrict	71.5	-313.1
1986	Tax Reform Act of 1986	Restrict	70.5	-318.4
1987	Omnibus Budget Reconciliation Act/ Technical and Miscellaneous Revenue Act of 1987	Restrict	63.4	-209.6
1988	Technical and Miscellaneous Revenue Act	Restrict	60.1	-210.9
1989	Omnibus Budget Reconciliation Act	Restrict	56.1	-200.0
1990	Omnibus Budget Reconciliation Act	Restrict	57.6	-280.4
1993	Omnibus Budget Reconciliation Act	Restrict	56.6	-292.3
1994	Uruguay Round Agreements Act	Restrict	54.8	-228.2
1996	Small Business Jobs Protection Act	Expand	59.4	-115.2
1997	Taxpayer Relief Act	Expand	74.8	-23.0
2001	Economic Growth and Tax Relief Reconciliation Act	Expand	84.2	236.2
2006	Pension Protection Act	Restrict	84.7	-361.3

Sources: Author's compilations of budget data from the Office of Management and Budget, various years; Office of Management and Budget 2006b; Employee Benefits Research Institute 2005; Holden, Brady, and Hadley 2006; and qualitative interviews.
Note: 'Funding' refers to both employer and worker contributions. Price deflators for specific years prior to 1929 were not available. The 1929 deflator, which was used for 1921, 1926 and 1928 figures, was taken from the Bureau of Economic Analysis, U.S. Department of Commerce, at http://bea.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=64&FirstYear=2004&LastYear=2006&Freq=Qtr.

Table 3: Number of Cash Balance Plans, 1999-2003.

Year	Plans	Total Assets (millions)	Total Active Participants (thousands)
1999	599	247,743	2,302
2000	799	412,369	3,227
2001	873	347,355	3,423
2002	927	365,495	3,930
2003	1,037	528,150	4,812

Source: Buessing and Soto 2006.